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PART 1 OF 3

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SUBJECT: FOREIGN MINISTER SHARP IS LEAD-OFF WITNESS AS SENATE
BEGINS MAJOR NEW STUDY OF CANADA-US RELATIONS

1. BEGIN SUMMARY. THE SECRETARY OF STATE FOR EXTERNAL
AFFAIRS, MITCHELL SHARP, WAS THE LEAD-OFF WITNESS, MARCH 28,
AS THE SENATE'S COMMITTEE ON FOREIGN AFFAIRS BEGIN A MAJOR
STUDY OF CANADA-US RELATIONS. SHARP SAID THE RELATIONSHIP
WITH THE US IS UNIQUE AND BY FAR THE MOST IMPORTANT OF
CANADA'S BILATERAL RELATIONSHIPS. HE RECONFIRMED CANADA'S
COMMITMENT TO CONTINUE TO DIVERSIFY ITS EXTERNAL ECONOMIC
RELATIONSHIP IN ORDER TO REDUCE ITS VULNERABILITY TO THE
US BUT DECLARED THAT THE US AND CANADA REMAIN EACH OTHER'S
MOST IMPORTANT CUSTOMER -- AND WILL CONTINUE IN THE FORESEEABLE
FUTURE. BUT HE SAID, CANADA IS IN A NEW PHASE OF ITS RELATIONS
WITH THE US, IN WHICH BOTH COUNTRIES ARE ADJUSTING TO
NEW CONDITIONS ABROAD AND MORE EFFECTIVE AND AFFIRMATIVE
NATIONAL POLICIES AT HOME. HE SAID THAT IN BOTH BILATERAL
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AND MULTILATERAL MATTERS CANADA CAN EXPECT A PERIOD OF

NEGOTIATION AND ADJUSTMENT OVER A WIDE RANGE OF ISSUES WHICH WILL NEED CAREFUL HANDLING. HE SAID THAT NATIONAL POLICIES IN BOTH CANADA AND THE US, IN SEVERAL AREAS, SUCH AS THE RESOURCES, ECONOMIC AND ENVIRONMENTAL SECTORS, WILL NOT NECESSARILY COINCIDE -- AND INDEED IN THE LAW OF THE SEA, CANADA OPPOSES THE UNITED STATES. THE MINISTER CONCLUDED BY STATING THERE WILL BE A CONTINUING NEED FOR CANADA TO SELECT ITS POLICIES ON THEIR OWN MERITS IN AN UNEMOTIONAL, BUSINESS-LIKE AND POSITIVE FASHION. MINISTER SHARP WAS THE FIRST OF 15 WITNESSES EXPECTED TO TESTIFY BEFORE THE COMMITTEE WHOSE CHAIRMAN IS SENATOR JOHN AIRD OF TORONTO (AND THE CANADIAN CO-CHAIRMAN OF THE PERMANENT JOINT BOARD OF DEFENSE). INVITED TO TESTIFY ARE ERIC KIERANS, FORMER LIBERAL CABINET MINISTER; HARRY JOHNSON, CANADIAN-BORN ECONOMIST AT THE LONDON SCHOOL OF ECONOMICS; ARTHUR SMITH, CHAIRMAN OF THE CONFERENCE BOARD OF CANADA. SENATOR AIRD TOLD THE POLITICAL COUNSELOR THAT THE COMMITTEE HAS NOT AS YET DECIDED HOW BROAD OR NARROW A DOCUS THEY SHOULD TAKE AND THAT HE APPROACHES THE STUDY WITH SOME "TREPIDATION." THE COMMITTEE IS BEING ASSISTED IN THE CONDUCT OF ITS STUDY BY THE PARLIAMENTARY CENTRE FOR FOREIGN AFFAIRS AND FOREIGN TRADE. END SUMMARY.

2. IN HIS PREPARED TEXT, SHARP DIVIDED HIS COMMENTS INTO THREE SUBJECTS: GLOBAL SITUATION IN THE 1970S; CANADIAN POLICY AND THE CURRENT STATE OF RELATIONS WITH THE UNITED STATES; AND MANAGING THE CANADA-US RELATIONSHIP. (HE ELABORATED ON THESE PREPARED REMARKS DURING A TWO-HOUR DISCUSSION PERIOD, REPORTED IN PART 2, AND PART 3 (LAW OF THE SEA) SEPARATE TELEGRAMS.) THERE FOLLOWS A SUMMARY OF SHARP'S STATEMENT:

3. GLOBAL SITUATION. RELATIONSHIP IS SIGNIFICANTLY AFFECTED BY THE POST-WAR STRUCTURE OF INTERNATIONAL RELATIONSHIPS AND INSTITUTIONS WHICH ARE UNDERGOING VERY IMPORTANT CHANGES IN THE 70S--POLITICALLY, FUNCTIONALLY AND IN INTERNATIONAL TRADE AND COMMERCE.

A. POLITICALLY: NEGOTIATION HAS REPLACED CONFRONTATION OF THE COLD WAR PERIOD (SALT, DETENTE, MBFR, CSCE); DIPLOMATIC LIMITED OFFICIAL USE

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CONTACT WITH PEKING; WITHDRAWAL OF US COMBAT FORCES FROM VIET NAM;

. NEW FUNCTIONAL INFLUENCES: EXAMPLES--FINITENESS OF WORLD RESOURCES, DANGERS TO WORLD ENVIRONMENT, MANAGING NEW TECHNOLOGY, POWER OF MODERN COMMUNICATIONS. ALL OF THESE FACTORS ARE MAJOR MODIFIERS OF CURRENT INTERNATIONAL SCENE. ENERGY CRISIS FORCED CANADA TO RE-EXAMINE ITS OWN

POSITION AND TAKE MEASURES TO ENSURE CANADIAN SECURITY OF SUPPLY. THIS IN TURN REQUIRED CANADA TO ENTER UPON INTENSIVE AND CONTINUOUS CONSULTATIONS WITH THE US ON OIL EXPORTS.

C. INTERNATIONAL TRADE AND PAYMENTS: EFFECT OF ENERGY CRISIS HAS BEEN CONFUSIVE. UNTIL THE OIL CRISIS EMERGED THERE WERE ENCOURAGING PROSPECTS FOR DEVELOPING A REFORMED MONETARY SYSTEM AT A FAIRLY EARLY DATE. NOT CLEAR TO WHAT EXTENT THE "TOKYO ROUND" OF TARIFF AND TRADE NEGOTIATIONS WILL BE AFFECTED BY EMERGING ECONOMIC ISSUES SUCH AS RESOURCE SCARCITY. BEFORE CURRENT CURTAILMENT OF CRUDE OIL SUPPLIES, PATTERN OF INTERNATIONAL ECONOMIC RELATIONSHIPS HAS BEEN DRAMATICALLY ALTERED: JAPAN HAD EMERGED AS A MAJOR ECONOMIC FORCE; EUROPEAN COMMUNITY HAD EXPANDED AND STRENGTHENED TO THE POINT OF RIVALLING THE US IN GLOBAL ECONOMIC TERMS.

4. CANADIAN POLICY AND THE CURRENT STATE OF RELATIONS WITH THE US. IN RESPONSE TO THE ABOVE CHANGES IN INTERNATIONAL SYSTEM, CANADA BEGAN A FOREIGN POLICY REVIEW WHICH LED TO A NUMBER OF INNOVATIONS, E.G., DEVELOPMENT OF RELATIONS WITH USSR AND RECOGNITION OF CHINA. EARLIER US MISUNDERSTANDINGS OF THESE MOVES GAVE WAY WITH ADOPTION OF NIXON DOCTRINE. NOW US AND CANADIAN PERCEPTIONS OF POLITICAL AND STRATEGIC ASPECTS OF THE EXTERNAL WORLD ARE AGAIN LARGELY PARALLEL. LIKEWISE CANADA IS NO LONGER AT A STAGE WITH THE US WHERE THE TRADE 'IRRITANTS' OF 1971-72 ASSUME SO MUCH IMMEDIATE IMPORTANCE.

A. ECONOMY: CANADIAN OBJECTIVE REMAINS TO EXPAND AND STRENGTHEN THE CANADIAN IDENTITY AND ECONOMY. LOCATION OF INDUSTRIES IN DEPRESSED AREAS AND DEVELOPMENT OF MINERAL RESOURCES AT CANADA'S OWN PACE AND THE ENCOURAGEMENT OF FURTHER PROCESSING IN CANADA.
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B. ENVIRONMENT: CANADA WILL CONTINUE TO PROTECT ESSENTIAL CANADIAN RIGHTS AND INTERESTS THROUGH THE PROCESS OF CONSULTATION AND NEGOTIATION. FOUR MATTERS OF CONSIDERABLE PUBLIC ATTENTION WHERE CANADA IS PURSUING ITS REQUIREMENTS ACTIVELY ARE: PROPOSED FLOODING OF THE SKAGIT VALLEY; GARRISON DIVERSION; WEST COAST TANKERS PROBLEM; AND THE REDUCTION OF POLLUTION IN THE GREAT LAKES.

C. EUROPE: VERY MUCH CONCERNED AT CURRENT TENSION BETWEEN COMMUNITY AND US. TENSION AND DISHARMONY BETWEEN THE TWO SIDES OF THE ATLANTIC WILL INEVITABLY BE TO CANADA'S DISADVANTAGE. CURRENT CANADIAN FOREIGN POLICY IS BASED ON DIVERSIFICATION OF RELATIONS NOT ON HAVING TO CHOOSE BETWEEN CANADA'S TWO MAJOR PARTNERS AND ALLIES. EQUILIBRIUM

MUST BE RESTORED IN WORLD TRADING AND PAYMENTS SYSTEMS BUT
CANNOT BE BROUGHT ABOUT WHEN THE MAJOR TRADING NATIONS ON
THE TWO SIDES OF THE ATLANTIC ARE "AS THEY SEEM AT PRESENT
UNABLE TO TAKE FULLY INTO ACCOUNT EACH OTHER'S REQUIREMENTS."

5. MANAGING THE CANADA-US RELATIONSHIP. LESS USE IN RECENT
YEARS OF JOINT MINISTERIAL MECHANISMS ESTABLISHED IN THE
PERIOD OF 40S THROUGH TO

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